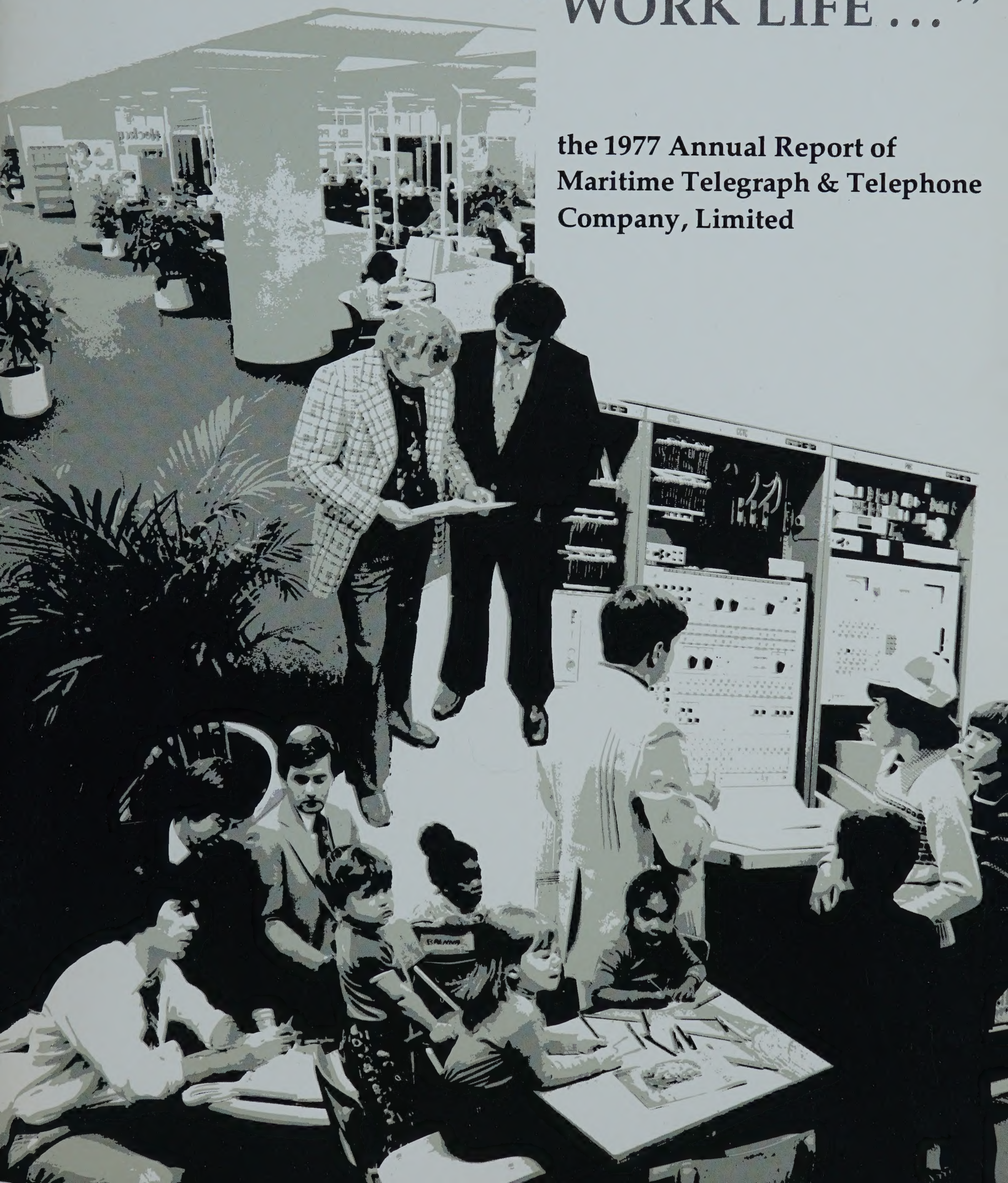
"WORK LIFE . . ."

the 1977 Annual Report of
Maritime Telegraph & Telephone
Company, Limited



WORK LIFE . . .

No one questions today that the key elements in a business enterprise that make it work best are its men and women. They're the ones at MT&T who produce the services, who do this efficiently, who adapt to changing markets and customer demands, who develop new and better services.

Certainly in MT&T, and increasingly in many organizations, there is growing a deeper comprehension of how men and women "work best". For one thing even the apprentice craftsman, or the junior clerk just out of typing school, or the Commerce graduate aspiring to succeed as a

communications consultant, have one thing in common: They seek a sense of belonging. For another, they thrive on a sense of teamwork. Finally, they are motivated by a sense of achievement.

Taken together — belonging, teamwork and achievement — these add up to a quality of work life that makes an enterprise truly effective. In the pages of this Annual Report we report on the year's accomplishments of the Company's 3,448 men and women. We also, in words and illustrations, talk about their Work Life.

1977 Annual Report of the Directors to the Shareholders of Maritime Telegraph & Telephone Company, Limited

Incorporated under the laws of the Province of Nova Scotia

Head Office: 1505 Barrington Street
P.O. Box 880, Halifax, Nova Scotia
Canada B3J 2W3
Telephone — (902) 421-4311

STOCK TRANSFER OFFICES

Maritime Telegraph and Telephone Company, Limited, 1505 Barrington Street Halifax, Nova Scotia (common shares, 7.0% preferred shares, 7.10% preferred shares, 8.60% preferred shares, 9.40% preferred shares and 7.65% preferred shares)

Common shares, 7.10%, 8.60%, 9.40% and 7.65% Preferred can also be transferred at the offices of Canada Permanent Trust at the following locations:

600 Dorchester Blvd. West
Montreal 101, Quebec

20 Eglinton Ave. West
Toronto 1, Ontario

433 Portage Avenue
Winnipeg, Manitoba

1778 Scarth Street
Regina, Saskatchewan

315 Eighth Avenue, S.W.
Calgary, Alberta

701 West Georgia Street
Vancouver, British Columbia

STOCK REGISTRAR

Maritime Telegraph and Telephone Company, Limited, 1505 Barrington Street, Halifax, Nova Scotia is the Registrar for 7.0% Preferred.

Canada Permanent Trust Company, at its offices in Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver, is the Registrar of Common shares, 7.10% 8.60%, 9.40% and 7.65% Preferred shares of the capital stock of the Company.

Common Shares, 7.10%, 8.60%, 9.40% and 7.65% preferred shares listed:

Montreal Stock Exchange
Toronto Stock Exchange

Valuation Day Prices
(December 22, 1971)

Common Shares	$22.13
7% Preferred Shares	$ 9.63

The 1977 Annual Report is a summary of the operations of the Company in its 68th year of serving Nova Scotia. It is prepared for those who have invested in our Company, for those who are interested in the Company's performance and for our employees.

NOTICE OF ANNUAL MEETING

The annual general meeting of the shareholders of Maritime Telegraph and Telephone Company, Limited will be held at the Head Office of the Company, Maritime Centre, 1505 Barrington Street, Halifax, N.S. on Tuesday, the 28th day of March, 1978, at 11:30 o'clock in the forenoon.

President's review

In the 12 months of 1977, we required $44 million of our total $51.4 million in capital investment to "grow" the telephone network by 16,274 phones; we worked 194,011 customer orders for this increase, with some communities having a turn-over or mobility of one in every two residence units as people moved in, moved on, added extensions and the like.

But this significant workload was only the beginning. Local and long distance facilities were enlarged, to cope both with the greater number of phones and the increased volumes of calling, both local and long distance. The volume of local calling, already running at more than one billion a year, grew by 40 million; long distance calling rose by 8.8 per cent to 34.5 million.

Again, in dozens of communities we responded to expressed need for more and more time-saving, easier-to-use services. In 1977, we required $7.4 million in capital for these improvements.

Between eight pairs of exchanges where common social, business, professional and institutional interests were served by one or the other, we eliminated long distance charges, replacing these with modest increases in fixed monthly charges.

In nine communities we followed the natural direction of home and business development by enlarging "core" areas in which private-line service was available without extra charge. Thus private-line customers had extra monthly mileage charges eliminated, and many more had these mileage charges reduced.

Accompanying these improvements was the provision of speedier long distance calling in seven areas. Facilities were added which made Direct Distance Dialing fully automatic, eliminating the need for operators to come in on the line to request the phone numbers of callers.

And finally, as part of a much longer range program, we added transmission facilities in nearly every rural area to reduce the number of customers sharing party lines. Although the total number of rural area customers continued to increase — a social phenomenon not unique to Nova Scotia — we reduced the average party-line sharing to 4.2 customers from 4.6 at the start of 1977. Our goal in the next two years is to reduce this to 3.6.

Expansion of all of these services produced growth in revenues, and in 1977 the rate of return on average invested capital was 10.1 per cent, compared to 9.8 per cent in 1976. Similarly, the return on average common equity of 12.0 per cent was up from 11.3 per cent in 1976, and earnings per average common share were $2.41, compared to $2.27.

However, these results had built-in adverse trends. Taken by yearly quarters, they moved upward in the first part of the year. Revised rates, approved in May by the Nova Scotia Board of Commissioners of Public Utilities — but modified to stay within AIB guidelines — supported this upward trend. But this trend turned downward in the latter part of the year.

By year end, therefore, plans were underway to seek additional increases in revenues by way of changes and revisions in rates. In January we petitioned the Board of Commissioners to this effect, and public hearings were scheduled to begin February 14. If approved for implementation May 1, it is anticipated that these new rates would provide an additional 3.5 per cent in revenues in 1978, and 5.2 per cent for the 12 months of 1979.

President
& Chief Executive Officer

February 10, 1978.

Expanding customer services

Total telephones reach 431,129.

Addition of 16,274 telephones brought the total at year end to 431,129, a gain of 3.9 per cent. Of this growth, 6,117 were for new services to residences.

Another 5,488 were extensions, including for example Contempra sets and Touch Tone models.

As well, 4,669 business phones were installed, including new services as well as additions to existing systems. Business service phones now amount to 26.8 per cent of the total of all phones in service.

By the end of the year, the percent of households with private-line service was 81.6. Overall, the number of telephones per 100 population stood at 51.6, up from 50 a year ago. Nationally, the average is 60.5.

Calling volume exceeds 1,000,000,000

For the second year in a row, the volume of calls exceeded a billion, and included were 34.5 million long distance calls, an increase of 8.8 per cent over a year ago.

With provision by the end of 1976 of Direct Distance Dialing for all of MT&T's phones, the volume in "do-it-yourself" dialing grew in 1977.

Especially in residence long distance calling, the growth has been dramatic. DDD calls from homes and apartments now exceed 93 per cent of all residential long distance calls. Business DDD calling has been slower to develop, with many customers utilizing credit cards, person-to-person services and similar special-handling. Overall, combined business and residence DDD calling grew to 84 per cent of the total.

Service Improvements

"Flat rate" calling (eliminating long distance charges) was provided between eight pairs of neighboring exchange areas: Musquodoboit and Upper Musquodoboit, Springfield and New Germany, Maccan and Amherst, Boulardarie and North Sydney-Sydney Mines, Southampton and Springhill, Port Bickerton and Sherbrooke, Port Greville and Parrsboro, and Saltsprings and New Glasgow.

Enlarged "core" calling areas (eliminating or reducing exchange monthly mileage charges) were provided in nine exchange areas: Elmsdale, Pictou, Prospect, Argyle, Tusket, Chester, Springhill, Amherst and Pubnico.

The need for an operator to come in on the line to record the calling number on a DDD call was eliminated in seven communities: Berwick, Windsor, Digby, North Sydney, Sydney Mines, Liverpool and Lunenburg.

New Business Services

Successful trial of a unique "marine mobile radio" service among members of Nova Scotia's southwestern fishing fleet in 1977 has led to plans for full-fledged service in 1978. First of its kind in North America, the service will enable any number of the estimated 1,500 inshore fishing craft in the region to use a dedicated network to check for landing prices, weather conditions, and preferred ports for off-loading of catches.

The cross-Canada "Datapac" network — technically known as packet-switching by which large amounts of data are moved on a shared network — was introduced early in the year. The new service involves, at the outset, four specialized applications for as many different industrial purposes, each tailored to various customers' needs.

Within Nova Scotia, the MT&T "Dat-O-Net" service — using data circuits to link regional centres to Halifax like so many spokes on a wheel — was followed by plans to enhance this service, which will enable users to "switch" data through Halifax to other regional centres.

For busy customers who wish to have phone messages recorded — and even have their phones give answers — a new line of versatile devices was added during the year. Five different models were placed in service, giving customers various ranges of daily use — from 30 seconds to two hours of recordings — and offering remote control, so that customers can call their own phone recordings and pick up incoming messages and re-record answering messages.□

At MT&T adding the quality to the "work life" of employees has achieved excellent results. As one example, the clerical and first-level managerial staff directly involved with Commercial Department customer order-taking and order-processing have, during 1977, radically re-shaped their jobs.

Guided through careful planning steps, the group selected its own informal leaders, re-examined the flow of work from customer to the field, re-arranged office lay-out, responsibilities and methods. Now adopted, the new plan has speeded up the work, reduced the chances for errors, improved job-morale and cut costs.☐

This same innovation is inherent in a recommendation in 1977 by a work group within the Marketing Department. Plans were scrutinized of other Canadian and U.S. telephone companies to cope with extraordinary customer mobility in certain urban centres. In several districts in the Halifax-Dartmouth area, for example, the Marketing group's research showed that occupants change residence with high frequency — as high as 46 per cent annually in Spryfield, 48 per cent in Rockingham, 49 per cent in parts of Dartmouth, 52 per cent in Halifax's South End area.

One proposal is establishment of small, neighborhood "phone centres", and the no-charge installation of extra wall outlets ("jacks") in nearby residences. If approved in the current application before the Board of Commissioners of Public Utilities, this would permit residence customers to pick up and take home their own plug-in phones, trade them in for different models or colors, receive rebates by returning sets when service is terminated, all at lower-than-usual rates.☐

Justifiable pride in their accomplishments prompted MT&T people, many on their own time, to assist in more than two dozen community "open houses" throughout the Province. At these, grown-ups and children toured new and improved facilities which added a variety of additional telephone services to their areas.☐

Planning ahead

Those who engineer the telecommunications future at MT&T are guided by what they term "economic intervals". If a given calling capacity will be needed in an exchange by, say, 1988, the decision must be made whether to build this capability now, or to build it in successive increments in the next ten years — in other words in intervals that are economically sound.

Thus during 1977 the replacement of central switching facilities in Amherst was commenced, a $3.8 million project that was two years in the planning. That centre will, it is anticipated, serve the growing needs of the area until the 1980's; then an additional $300,000 will be required to add more capacity for continued growth.

Similarly in other places throughout Nova Scotia a range of transmission, switching and microwave facilities was completed, all of it with capacity for near-term growth.

Among these were the enlargement of long distance capacity at Halifax's North Street long distance centre, a $5.4 million project completed in late summer. Additional microwave facilities from Halifax to Sydney were completed, at a cost of $1.4 million. In several exchange "switching centres", extensions to add to calling capacities were completed at a cost of $3.3 million. In both Argyle and Port Bickerton, the switching facilities were entirely replaced, at a cost of $314,000. Throughout the province, more than 106,000 "pair miles" of cable were added, each pair providing a voice channel.

During 1978 and 1979, the Company will be investing $108.4 million to meet current growth demand, to build in capacity for the future, and for service improvements.

Approximately $88 million will enable us to enlarge the network (phones, switching centres, transmission facilities, lines and microwave) as an estimated net growth of 34,500 phones takes place.

Another $20.4 million will provide flat-rate calling between 14 pairs of neighboring exchanges; enlarged mileage-free private-line areas in 20 communities; fully automatic DDD calling in 22 exchanges; and switching and transmission facilities for a further reduction in rural party-line sharing to an average of 3.6 by the end of 1979.

By late Spring of 1978 all 151 exchanges in Nova Scotia will have been equipped to provide push-button calling for customers who wish to subscribe for this premium service. This provisioning for Touch-Tone, which required $614,000 in capital expenditures, took advantage of the latest in low-cost technology. Ten years ago a similar project would have required many times that amount. Vigorous marketing of Touch-Tone calling, especially valued by those who make frequent use of the phone, will mean revenues from this investment will add significantly to overall revenues to enable rates for basic service to be kept to a minimum. MT&T is the first Canadian telephone company to so equip all its exchanges with this service. □

As pressures have mounted on transportation facilities, rush-hour traffic congestion has grown in Halifax. During 1977 MT&T joined a growing number of downtown organizations in cooperating with civic authorities in ways to ease these pressures. For some 1,500 area employees, an experiment in flexible work hours was conducted in 1977. ''Flextime'', as it is known, offers employees the chance to start and finish work at different times — though all must be at work during core hours, and individual working days are neither shortened nor lengthened. After several weeks, during which committees of employees carefully monitored results, ''flextime'' became a feature of corporate life in the latter part of the year.□

Again in response to both traffic congestion and expressed employee wishes, MT&T together with the Ecology Action Centre in Halifax cooperated to introduce ways to respond to employee suggestions for sharing transportation to and from work. Car-pooling was an instant success, involving at the outset several dozens of employees. One immediate result was elimination of possible parking space shortages as several hundred employees were transferred from previous locations to Maritime Centre.□

One consequence of the concentration of employees at Maritime Centre was the availability of several hundred square feet of space in the former Atlantic Utilities building, next to the former Head Office building. Late in the year the Company made this space available to the St. Joseph's Children's Centre for day care facilities for pre-school children of working parents. With planned demolition of the next-door Head Office building this Spring, the day care centre will be able to share in the use of the resulting adjacent green space.□

Summing up

The Company's services during 1977 grew — more telephones, higher calling volumes, additional service improvements, expansion of the Province-wide network.

The number of MT&T employees, however, stayed pretty much the same, for the second year in a row. At year end, there were 1,789 men and 1,659 women (while a year ago there were 1,812 men and 1,635 women.)

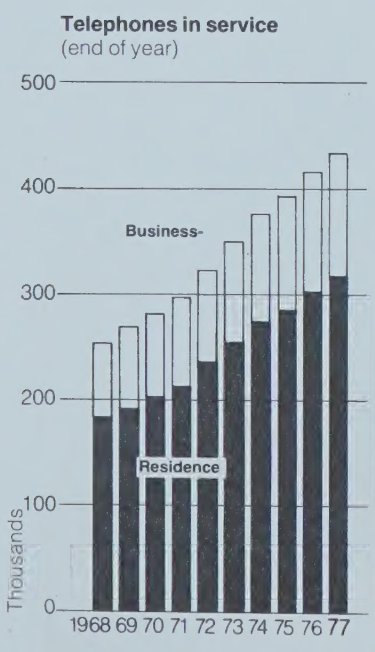
Taken together, these facts offer a fair yardstick of the Company's improvement in both efficiency and effectiveness. They also reflect creditably on the "work life" of those involved, their increasing sense of commitment, teamwork and achievement.

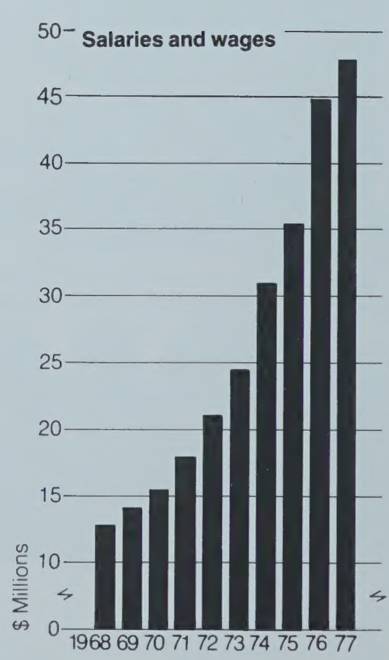
For the Board of Directors,

Stewart Robertson

President
& Chief Executive Officer

February 14, 1978



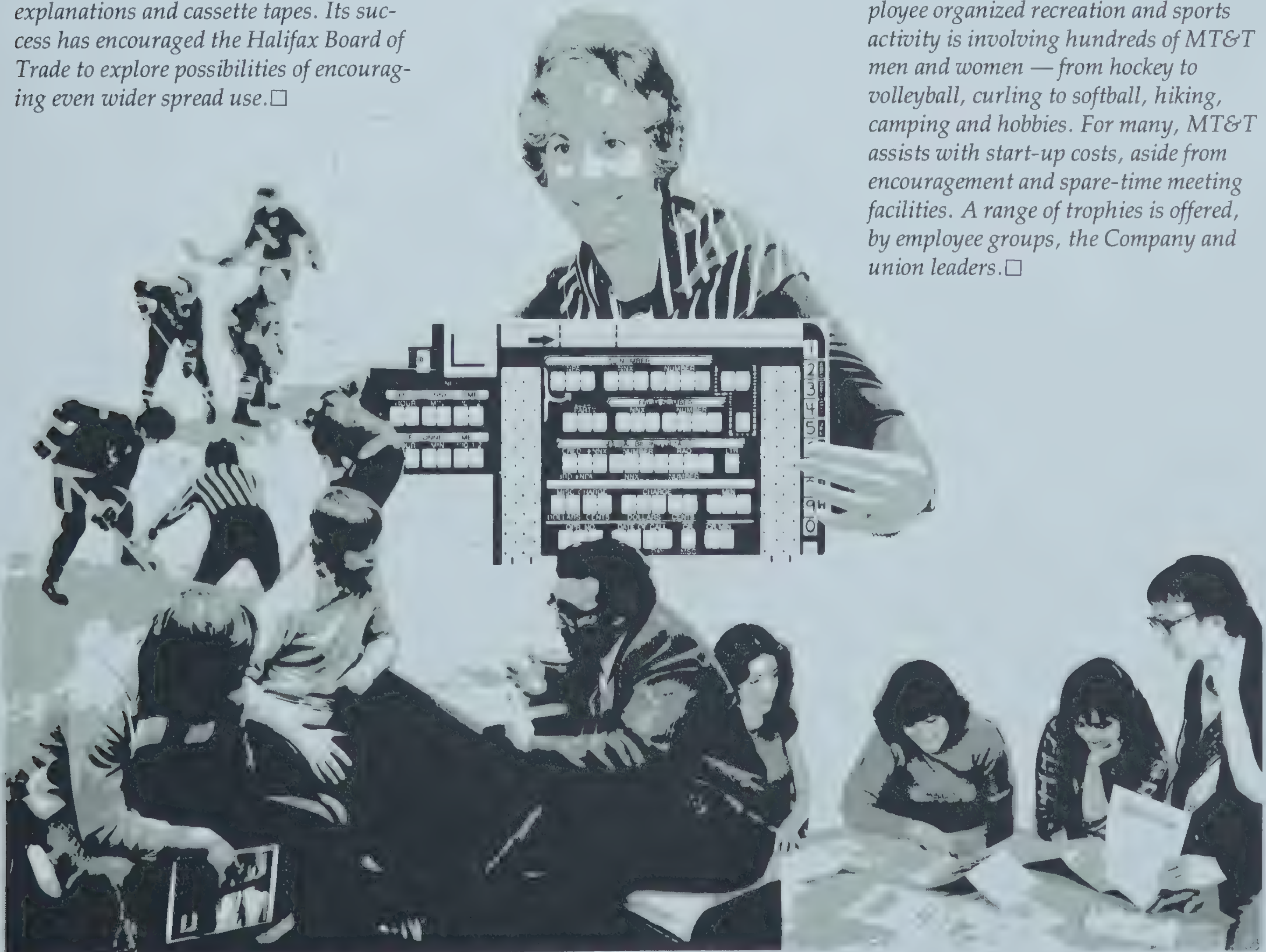


In every high school in the Province, economics and business classes are playing a new game. Principals, vice-principals, economics teachers and students have enthusiastically welcomed a special MT&T project — the "New City Telephone Company". NCT, as it is known, is not just about telephone companies. It is a classroom simulation of the range of problems every growing business faces — from trade-offs between investments and profits, customer demands and social concerns, problems of labor and management. MT&T people visit with students, consult with staff, introduce the game. Students take the roles of senior officers and managers in turn — and too many wrong moves mean the roles change! The NCT game comes packaged with booklets, score sheets, explanations and cassette tapes. Its success has encouraged the Halifax Board of Trade to explore possibilities of encouraging even wider spread use.□

In all of MT&T's districts during 1977, advances were made in the Company's concern to reinforce non-discriminatory attitudes both on and off the job. MT&T's initial Affirmative Action program was pioneered several years ago. In the Summer and Autumn of 1977 staff personnel conducted voluntary "awareness sessions" among employees of all ranks, the goal being understanding of the often-unconscious tendency towards stereotyping of others on sex, religious, racial or minority group grounds.□

Close to a fifth of the 34.5 million long distance calls Nova Scotians made in 1977 were operator-handled. This "personal touch" for such calls as person-to-person, credit card, reverse-charged and so forth requires speedy, accurate and efficient handling. But that doesn't mean the customer-to-operator conversation need be impersonal. The voice with a smile took on new meaning when, after a contest among operators, the winning byword "Smile — it sounds good!" was adopted and imprinted on each and every toll ticket used by the operator as the customers make their calls.□

Learning is where you find it! Teamwork, belonging and accomplishment are on-the-job plusses, but they work at other times too. Increasingly a program of employee organized recreation and sports activity is involving hundreds of MT&T men and women — from hockey to volleyball, curling to softball, hiking, camping and hobbies. For many, MT&T assists with start-up costs, aside from encouragement and spare-time meeting facilities. A range of trophies is offered, by employee groups, the Company and union leaders.□



The financial report

review of 1977

Earnings

During 1977 financial results continued to show improvement, with earnings per share rising from $2.27 in 1976 to $2.41 for the year just ended. The rate of return on average invested capital rose to 10.1 per cent from 9.8 per cent in 1976. The return on average common equity was 12.0 per cent, up from 11.3 per cent in 1976.

Operating revenues & expenses

Operating revenues for the year were $129,655,000, compared to $111,695,000 for the year before, a 16.1 per cent increase. This resulted from an increase in the number of telephones in service of 3.9 per cent, and in long distance calling of 8.8 per cent; as well, revised tariff rates commencing May 1 contributed to this increase.

Operating expenses and other taxes for the year were $85,979,000 an increase of 15.0 per cent over expenses of $74,754,000 in 1976. The major component was depreciation expense of $24,341,000; maintenance expense for the ongoing operation and upkeep of facilities was $19,840,000.

Net income was $16,240,000, and, after payment of $11,922,000 in preferred and common dividends to support the equity investment by shareholders which was $160,340,000 at year end, $4,318,000 was retained and reinvested in the business.

Financing

To finance its capital expenditure program, the Company from time to time must raise funds in financial markets to augment funds generated from internal sources. In 1977, the Company issued and sold 1,500,000 shares of 7.65 per cent preferred stock; the $15 million proceeds formed part of the Company's ongoing financing to support its capital expenditures which in 1977 totalled $51.4 million.

In 1978 and 1979

With approval in May for revised tariff rates, the year's earnings trended upwards in the first part of 1977. However, these revisions were inadequate to sustain this trend, and there was a downward trend in the latter months of the year. Permitted to continue, this would result in earnings below the level necessary to support planned capital expenditure programs for 1978 and 1979.

During 1978, $53.6 million, and in 1979, $54.8 million in capital expenditures will be required to meet the estimated customer demand for an increase of 34,500 telephones in those two years, an increase of 18.8 per cent in long distance calling volumes, and a series of service improvement projects.

To support this two year capital expenditure program, the Company has applied to the Nova Scotia Board of Commissioners of Public Utilities for revisions to its General Tariff. If approved for implementation May 1, these changes would mean revenues for 1978 would increase an additional $5.1 million, or 3.5 per cent. For the full year 1979 this increase would rise to $8.2 million, or 5.2 per cent.□

in brief

	1977	1976
Earnings Per Common Share	$ 2.41	$ 2.27
Dividends Per Common Share	$ 1.60	$ 1.60
Return on Average Common Equity	12.0%	11.3%
Return on Average Invested Capital	10.1%	9.8%
Equity Per Common Share, December 31	$ 20.39	$ 19.79
Construction Program Expenditures (millions)	$ 51.4	$ 62.6
Telephone Plant Per Telephone, December 31	$ 1,070	$ 1,030
Telephones in Service, December 31	431,129	414,855
Long-term Debt % Total Invested Capital, December 31	48.8%	52.6%
Employees, December 31	3,448	3,447
Salaries and Wages (millions)	$ 47.8	$ 44.4
Average Common Shares (thousands)	5,304	4,574

auditors' report

To the Shareholders of Maritime Telegraph
and Telephone Company, Limited:

We have examined the financial position statement of Maritime Telegraph and Telephone Company, Limited as at December 31, 1977 and the statements of income, retained earnings and sources of funds used for construction for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the sources of its funds used for construction for the year then ended in accordance with generally accepted accounting principles which, except for the changes in accounting practices explained in note 1(d) to the financial statements, have been applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants

Halifax, Canada
January 31, 1978

INCOME STATEMENT
For the Year Ended December 31

	Thousands of Dollars	
	1977	1976
	$	$
OPERATING REVENUES		
Local service	57,293	50,678
Long distance service	68,882	58,376
Other	4,498	3,560
Uncollectible	*1,018*	*919*
	129,655	111,695
OPERATING EXPENSES		
Maintenance	19,840	18,535
Depreciation (Note 1 (b))	24,341	21,139
Traffic	8,167	8,468
Commercial and Marketing	7,836	6,890
Administrative	11,386	8,755
Pensions and other employee benefits	5,906	4,731
Other	4,954	3,153
Taxes other than income taxes	3,549	3,083
	85,979	74,754
	43,676	36,941
Other income (Note 2)	1,274	1,760
	44,950	38,701
INTEREST		
Bond interest	13,445	13,124
Other (Note 3)	987	932
	14,432	14,056
	30,518	24,645
Income taxes	14,278	11,224
NET INCOME	16,240	13,421
Preferred dividends	3,435	3,043
NET INCOME APPLICABLE TO COMMON SHARES	12,805	10,378
Earnings per common share:	2.41	2.27

RETAINED EARNINGS STATEMENT
For the Year Ended December 31

	Thousands of Dollars	
	1977	1976
	$	$
RETAINED EARNINGS, beginning of year	28,453	26,308
ADDITIONS:		
Net income	16,240	13,421
Other (Note 9)	18	51
	16,258	13,472
DEDUCTIONS:		
Preferred dividends	3,435	3,043
Common dividends	8,487	7,517
Commission and expenses of issuing capital stock	453	767
	12,375	11,327
RETAINED EARNINGS, end of year	32,336	28,453

D. S. Inkpen
Comptroller

FINANCIAL POSITION STATEMENT
As at December 31

ASSETS

	Thousands of Dollars	
	1977	1976
	$	$
TELEPHONE PLANT (Note 1 (b))		
Depreciable telephone plant in service	439,159	400,384
Other telephone plant (Note 4)	15,851	19,253
	455,010	419,637
Less accumulated depreciation	105,948	95,453
	349,062	324,184
Materials inventory	6,507	7,574
	355,569	331,758
INVESTMENTS		
Equity in shares of other companies (Note 5)	5,443	4,314
Other investments (Note 6)	934	835
	6,377	5,149
CURRENT ASSETS		
Cash	362	78
Accounts receivable	19,258	16,996
Prepayments	1,678	1,449
	21,298	18,523
DEFERRED CHARGES		
Unamortized long-term debt expenses	2,373	2,525
Other deferred charges	2,025	1,200
	4,398	3,725
	387,642	359,155

LIABILITIES AND SHAREHOLDERS' EQUITY

	Thousands of Dollars	
	1977	1976
	$	$
SHAREHOLDERS' EQUITY		
Common stock (Note 7)	**54,249**	53,038
Premium on common stock (Note 8)	**24,021**	23,456
Retained earnings	**32,336**	28,453
Total common equity	**110,606**	104,947
Preferred stock (Note 7)	**49,734**	35,079
	160,340	140,026
LONG-TERM DEBT (Note 10)		
First mortgage bonds	**144,864**	150,864
Bank and other notes	**7,850**	4,370
	152,714	155,234
CURRENT LIABILITIES		
Accounts payable	**10,276**	10,045
Income taxes accrued	**4,447**	1,524
Interest accrued	**2,295**	2,315
Dividends payable	**3,322**	2,829
Other current liabilities	**687**	534
	21,027	17,247
DEFERRED CREDITS		
Income taxes (Note 1 (c))	**53,394**	46,522
Other deferred credits	**167**	126
	53,561	46,648
COMMITMENTS (Note 13)		
	387,642	359,155

On behalf of the Board:

Struan Robertson
Director

A. G. Archibald
Director

The accompanying notes form
an integral part of these financial statements

STATEMENT OF SOURCES OF FUNDS USED FOR CONSTRUCTION

For the Year Ended December 31

	Thousands of Dollars	
	1977	1976
	$	$
SOURCE OF FUNDS:		
Internal —		
Operating revenues and other income	**130,929**	113,455
Less charges requiring working capital (Note 11)	**83,840**	72,460
Total internal	**47,089**	40,995
External —		
Common stock	—	17,500
First mortgage bonds	—	25,000
7.65% preferred stock	**15,000**	—
Bank and other notes	**7,850**	4,370
Employees' stock savings plan (Note 7)	**1,777**	1,437
Decrease in materials inventory	**1,067**	—
Decrease in working capital	**1,005**	7,226
Total external	**26,699**	55,533
Total source of funds	**73,788**	96,528
Funds used for other than construction—		
Investment in shares of other companies (Note 5)	**1,009**	671
Redemption of first mortgage bonds (Note 10 (a))	**6,000**	2,000
Preferred shares purchased for cancellation (Note 7)	**344**	1,229
Repayment of bank and other notes	**4,370**	22,300
Increase in materials inventory	—	1,308
Dividends	**11,922**	10,560
Other	**489**	1,532
Total funds used for other than construction	**24,134**	39,600
Total funds provided for construction	**49,654**	56,928
FUNDS USED FOR CONSTRUCTION:		
New telephone plant added	**49,896**	61,200
Cost of removing old plant	**1,528**	1,435
Construction program expenditures	**51,424**	62,635
Less charges not requiring working capital		
— Allowance for funds used during construction	**629**	1,380
— Salvage and Other	**1,141**	4,327
	1,770	5,707
Total funds used for construction	**49,654**	56,928

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies —

(a) Accounting for investment in other companies:
The statements include the accounts of The Island Telephone Company Limited and Maritime Computers Limited on an "equity" basis. See also note 5.

(b) Accounting for telephone plant:

Telephone plant is carried at cost.

Depreciation is charged on a straight-line basis using component rates for classes of plant, determined by a continuing program of engineering studies, as approved from time to time by the Board of Commissioners of Public Utilities for the Province of Nova Scotia. These rates provide for depreciating the assets over their estimated useful service lives and resulted in a composite rate for 1977 of 5.9% (1976, 5.8%).

Materials inventory consists of items which will be used in the construction program.

(c) Income taxes:
Deferred tax accounting has been followed with respect to all timing differences.

(d) Changes in accounting practices:
The Company together with other telecommunications companies has made certain changes in the application of accounting principles to bring their accounting practices more in line with other industries. These revisions refer mainly to certain corporate overheads which are not readily identifiable with or do not vary directly with construction of telephone plant.

The revisions were approved by the Nova Scotia Board of Commissioners of Public Utilities to be effective July 1, 1977, and were included in the allowable costs of the Company for the determination of its revenue requirements.

These costs which previously would have been capitalized and recovered through depreciation resulted in an increased charge to Operating Expense of approximately $869,000.

(2) Other income — includes the Company's portion of The Island Telephone Company Limited and Maritime Computers Limited net income of $611,000 (1976, $284,000), allowance for funds used during construction of $629,000 (1976, $1,380,000), less other income charges.

(3) Other interest — includes amortization of long term debt expenses amounting to $152,000 (1976, $149,000).

(4) Other telephone plant — land, telephone plant under construction and property held for future telephone use.

(5) Equity in shares of other companies — Includes equity in The Island Telephone Company Limited and Maritime Computers Limited. During the year the Company purchased 65,000 (32.5%) of the 200,000 new common shares issued by The Island Telephone Company Limited of Prince Edward Island. The Company's ownership interest in the Island Company was thereby reduced from 48.3 per cent to 44.4 per cent of the common shares in the capital stock of that Company.

(6) Other investments — principally in Telesat Canada. Total investment at cost in these shares is $738,000.

(7) Capital Stock — par value $10 per share

	1977 Shares	1976 Shares
Authorized:	**14,965,552**	9,707,873

Issued:

	Shares Outstanding at Jan. 1, 1977	Issued For Cash	Purchases of Preferred Shares For Cancellation	Shares Outstanding at Dec. 31, 1977
Common	5,303,822	121,071		5,424,893
Preferred				
7 %	150,000	—	—	150,000
7.10%	825,950	—	22,500	803,450
8.60%	921,948	—	11,948	910,000
9.40%	1,609,975	—	—	1,609,975
7.65%	—	1,500,000	—	1,500,000
	3,507,873	1,500,000	34,448	4,973,425
	8,811,695	1,621,071	34,448	10,398,318

The Company's authorized share capital was increased by Shareholder approval on March 22, 1977 to $150,000,000 divided into 15,000,000 shares of the par value of $10 each. By orders of the Supreme Court of Nova Scotia to December 31, 1977 the reduction of the Company's share capital from $150,000,000 to $149,655,520 was confirmed.

Early in the year, the Company reserved 130,000 shares for issuance under the Employees' Stock Savings Plan. By the end of the year the Company issued 121,071 shares to employees under the terms and conditions of the Plan. These shares are generally issued in December of each year after the completion of twelve months of contributions at a purchase price equivalent to 80% of the average market price of the stock.

By amendment to the Company's Act of Incorporation in 1966 any shareholder or group of associated shareholders owning 1,000 or more voting shares (common or 7% cumulative preferred) is limited to 1,000 votes at any meeting of the shareholders.

The 7% cumulative preferred shares are voting and non-redeemable.

The 7.10% cumulative preferred shares are non-voting unless six quarterly dividends are in arrears. The Company must make all reasonable efforts to purchase for cancellation in the open market 22,500 of such shares in each calendar year on a non-cumulative basis, at a price not exceeding $10 per share together with accrued and unpaid dividends, and costs of purchase. The Company may redeem the whole or part of the outstanding shares at par plus a premium of $0.60 per share, accrued but unpaid dividends, and cost of redemption on or before April 15, 1978. The premium thereafter reduces $0.10 every three years until a minimum premium of $.10 is reached on May 29, 1998.

The 8.60% cumulative redeemable preferred shares are non-voting unless six quarterly dividends are in arrears. The Company must retire, either by redemption or by purchase for cancellation, 30,000 of these shares in each 12 month period ending May 28th. The shares will be retired at a price not exceeding $10 per share, together with accrued and unpaid dividends and costs of purchase. The Company may redeem the whole or part of the outstanding shares at par plus a premium of $0.70 per share, accrued but unpaid dividends, and cost of redemption beginning May 28, 1979. The premium thereafter reduces $0.10 every three years until a minimum premium of $0.10 is reached May 29, 1997.

The 9.40% cumulative preferred shares are non-voting unless six quarterly dividends are in arrears. The Company must retire, as part of a cumulative mandatory sinking fund by April 15th of each year beginning with 1976, 70,000 shares at par value plus accrued and unpaid dividends and costs of purchase. The Company may purchase for cancellation the whole, or any part of the outstanding shares at par plus a premium of $0.70 per share prior to April 15, 1980. Thereafter the Company may redeem or purchase for cancellation the whole, or any part, of the remaining shares outstanding at a premium that decreases $0.10 every three years until a minimum premium of $0.10 is reached on April 16, 1998.

The 7.65% cumulative redeemable preferred shares are non-voting unless six quarterly dividends are in arrears. The Company shall make all reasonable efforts commencing January 1, 1978, to purchase for cancellation in each calendar quarter 11,250 Preferred Shares in the open market at a price not exceeding $10 per share plus costs of purchase. To the extent that the Company is unable to purchase the said 11,250 Preferred Shares in any such calendar quarter, the Purchase Obligation for such quarter shall be carried forward through the succeeding calendar quarters in the same calendar year and to the extent then not satisfied shall be extinguished. The Company may at any time purchase the whole or any part of the outstanding Preferred Shares in the open market at a price not exceeding $10.60 per share if purchased prior to August 22, 1982. Thereafter up to August 22, 1983, the Company may redeem or purchase for cancellation the whole or any part of the remaining shares at a price not exceeding $10.60 per share, such price declining by 7.5¢ per share per year, and at $10 per share after August 22, 1990, together in each case with all accrued and unpaid dividends thereon up to the date fixed for redemption.

(8) Premium on common stock —

	1977	1976
	$	$
Beginning of year	**23,456,000**	15,588,000
On shares issued during year	**565,000**	7,868,000
End of year	**24,021,000**	23,456,000

(9) Retained earnings — other

Contributed surplus of $18,000 (1976, $51,000) arising from the purchase for cancellation of preferred shares has been added to retained earnings during the year.

(10) Long-term debt —

(a) First mortgage bonds

Series	Rate	Maturing	Principal
J	5¼%	September 15, 1978	$ 3,500,000
K	5½%	November 1, 1980	4,000,000
L	5½%	June 15, 1983	5,000,000
M	5½%	May 1, 1985	7,000,000
N	6½%	March 15, 1987	10,000,000
Q	9¼%	June 1, 1990	1,364,000
R	8⅜%	May 1, 1991	12,000,000
T	8¾%	December 15, 1993	20,000,000
S	8⅝%	August 1, 1994	12,000,000
U	10¾%	November 1, 1995	20,000,000
V	11 %	June 15, 1996	25,000,000
W	10¾%	March 15, 1997	25,000,000
Total first mortgage bonds			$144,864,000

All the real and immovable property, shares and securities owned by the Company are pledged by a first fixed and specific mortgage and charge as security for the Bonds. The Trustee for the Bondholders also has a first floating charge on all other property of the Company both present and future.

(b) Bank and other notes

Bank demand loan at prime rate $7,850,000

In order to permit the Company to time its issues of debt or capital stock most advantageously the Company maintains a substantial bank line of credit and from time to time sells short-term promissory notes. Such short-term credit is replaced in the normal course by longer term financing and currently maturing debt issues are likewise normally refinanced. For this reason the Company does not classify these items as current liabilities.

Likewise the Company does not classify as current assets excess funds received through financing and temporarily invested in short-term investments.

(11) Charges requiring working capital —

	1977	1976
	$	$
Operating expenses, interest and taxes	**114,689,000**	100,034,000
Less charges not requiring working capital		
— Depreciation	**24,341,000**	21,139,000
— Deferred income taxes	**6,872,000**	7,390,000
— Other	**483,000**	425,000
	31,696,000	28,954,000
	82,993,000	71,080,000
Add credits not producing working capital		
— Allowance for funds used during construction	**629,000**	1,380,000
— Other	**218,000**	—
	83,840,000	72,460,000

(12) Pension Fund —

Pension Fund Obligations are accounted for and paid over the estimated future working lifetime of employees of the Company. The contribution to the pension fund for the year ended December 31, 1977 amounted to $6,570,000 (1976, $5,036,000). The actuarial reviews as of December 31, 1976, based on earnings and service to that date, show that all vested benefits are fully funded.

(13) Commitments —

Leases:

(1) The Company leases space in Maritime Centre with annual rental payments of approximately $1,527,000. The agreement expires in 1997, however, the Company has an option to extend the term of the lease to the year 2002.

(2) The Company leases its tenant improvements in Maritime Centre. This agreement calls for annual rental payments of approximately $285,000 and expires in 1987.

(3) The Company leases a substantial number of circuits in the ordinary course of its business for which it pays annual rents of approximately $480,000. The most significant of these leases expires in 1978.

(4) The Company leases computer equipment at an annual rental of approximately $483,000, the contract expiring in 1979.

(5) The Company has several agreements with regard to the Telesat Communications Satellite, Anik 1 with respect to circuit leases through the Trans-Canada Telephone System. These agreements call for annual payments of approximately $276,000 and expire in 1978.

(14) Anti-Inflation Act —

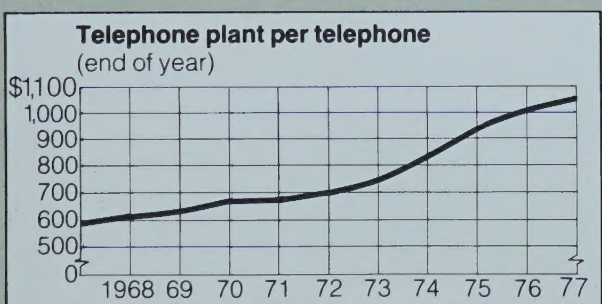
The Company is subject to the Anti-Inflation Act which provides authority for the imposition of Anti-Inflation restraints from October 14, 1975, and in the Company's case is generally in force until December 31, 1978. The Act and the guidelines thereunder control profit margins, prices, dividends and compensation. The Anti-Inflation Act contains special provisions relating to the application of the guidelines to companies whose prices or profit margins are subject to approval by regulatory bodies. The Company is subject to regulation by the Nova Scotia Board of Commissioners of Public Utilities.

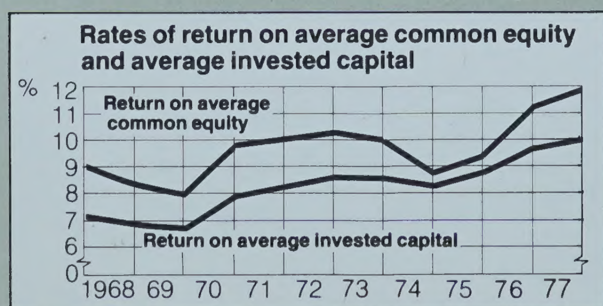
Section 4.1 (1) of the Anti-Inflation Act provides that any body that establishes or approves the prices or profit margins of any supplier to whom the guidelines apply shall, in exercising its powers, apply such guidelines as are applicable in the circumstances, modified to such extent, if any, as in the opinion of the body, is necessary to take into account the particular facts of the situation.

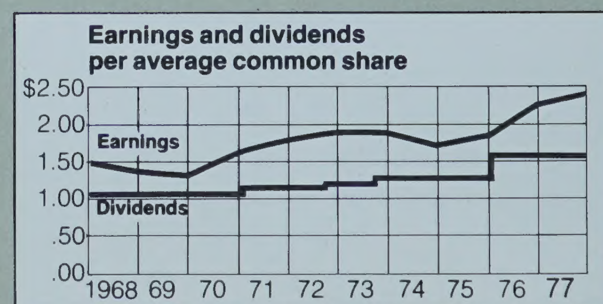
Management is satisfied that the Company is complying with the legislation and regulations thereunder.

THE YEARS IN REVIEW

	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
Financial Position at December 31 (in thousands)										
Telephone plant	**$461,517**	$427,211	$378,857	$323,444	$267,627	$230,123	$205,984	$190,400	$174,552	$160,820
Accumulated depreciation	**105,948**	95,453	85,149	73,706	66,462	59,465	51,758	46,892	42,767	38,490
Investments	**6,377**	5,149	4,430	4,083	6,608	6,379	3,588	3,548	2,772	2,722
Current assets	**21,298**	18,523	22,214	16,107	11,449	8,875	9,921	7,548	7,004	6,893
Deferred charges	**4,398**	3,725	2,947	2,249	1,635	1,433	1,091	953	705	519
Shareholders' equity	**160,340**	140,026	120,177	100,892	88,600	84,541	72,104	68,957	65,942	64,295
Long-term debt	**152,714**	155,234	150,164	125,000	95,690	74,700	72,150	65,650	55,650	51,000
Current liabilities	**21,027**	17,247	13,712	12,860	9,933	7,113	5,220	5,788	6,795	4,584
Deferred credits	**53,561**	46,648	39,246	33,425	26,634	20,991	19,352	15,162	13,879	12,585
Income (in thousands)										
Operating revenues and extraordinary items	**$129,655**	$111,695	$ 90,621	$ 73,469	$ 62,153	$ 54,892	$ 48,325	$ 43,986	$ 38,390	$ 35,208
Operating expenses and other taxes	**85,979**	74,754	62,484	50,806	41,180	35,845	30,877	27,674	25,231	22,485
Other income	**1,274**	1,760	2,249	1,381	995	810	675	567	314	435
Interest	**14,432**	14,056	11,677	8,473	6,024	5,076	4,574	3,758	2,958	2,538
Income taxes	**14,278**	11,224	8,141	7,275	7,530	6,650	6,401	6,514	5,282	5,295
Net income for year	**16,240**	13,421	10,568	8,296	8,414	8,131	7,148	6,607	5,233	5,325
Statistics — at December 31										
Telephone plant per telephone	**$ 1,070**	$ 1,030	$ 965	$ 854	$ 766	$ 711	$ 692	$ 682	$ 648	$ 627
Equity per common share	**$ 20.39**	$ 19.79	$ 19.98	$ 19.66	$ 19.43	$ 18.84	$ 18.19	$ 17.64	$ 17.10	$ 16.88
Embedded debt cost	**9.2%**	9.2%	8.8%	8.2%	7.6%	7.3%	6.8%	6.1%	5.4%	5.1%
Long-term debt % total invested capital	**48.8%**	52.6%	55.6%	55.3%	51.9%	46.9%	50.0%	48.8%	45.8%	44.2%
Employees	**3,448**	3,447	3,526	3,466	3,152	2,877	2,649	2,529	2,469	2,474
Telephones in service	**431,129**	414,855	392,441	378,823	349,590	323,762	297,877	279,268	269,211	256,388
Dial telephones	**100%**	100%	98.6%	98.1%	96.0%	94.9%	92.1%	90.8%	90.5%	90.1%
Statistics — for year										
Earnings per common share	**$ 2.41**	$ 2.27	$ 1.89	$ 1.75	$ 1.94	$ 1.94	$ 1.83	$ 1.71	$ 1.37	$ 1.41
Dividends per common share	**$ 1.60**	$ 1.60	$ 1.30	$ 1.30	$ 1.26	$ 1.21	$ 1.20	$ 1.10	$ 1.10	$ 1.10
Times bond interest earned — before taxes	**3.3**	2.9	3.0	3.2	4.1	4.1	4.3	5.1	5.2	5.7
Times bond interest earned — after taxes	**2.3**	2.1	2.2	2.3	2.7	2.7	2.8	3.1	3.2	3.4
Return on average invested capital	**10.1%**	9.8%	8.9%	8.4%	8.6%	8.7%	8.4%	8.0%	6.9%	7.0%
Return on rate base	**8.3%**	8.0%	7.4%	6.7%	7.4%	7.6%	7.4%	7.3%	6.2%	6.2%
Return on average common equity	**12.0%**	11.3%	9.5%	8.9%	10.1%	10.4%	10.2%	9.9%	8.1%	8.4%
Construction program expenditures (in thousands)	**$ 51,424**	$ 62,635	$ 64,477	$ 63,889	$ 42,619	$ 27,912	$ 21,518	$22,606	$ 17,748	$ 19,166
Average common shares (in thousands)	**5,304**	4,574	4,110	4,024	3,961	3,907	3,854	3,796	3,743	3,698
Salaries and wages (in thousands)	**$ 47,836**	$ 44,365	$ 35,263	$ 30,701	$ 24,651	$ 20,968	$ 17,724	$ 15,684	$ 14,001	$ 12,851
Average daily toll messages (in thousands)	**94**	87	82	73	63	55	48	42	38	36







Maritime Telegraph & Telephone Company Limited

DIRECTORS

Garnet L. Angus
President
G. L. Angus Real Estate
and Appraisals Ltd.
Amherst

A. Gordon Archibald
Chairman of the Board
Maritime Telegraph & Telephone
Co., Ltd.
Halifax

+Donald F. Archibald
President
Archibald Farms Limited
Port Williams

+Harry Bowler
Vice-President (Finance)
Bell Canada
Montreal

D. Andrew Eisenhauer
President
Atlantic Bridge Co., Ltd.
Lunenburg

The Hon. Clarence L. Gosse
Lieutenant-Governor
Province of Nova Scotia
Halifax

Frederick E. Ibey
Executive Vice-President
(Operations)
Bell Canada
Montreal

Seymour W. Kenney
President
H. D. MacLeod Agency, Ltd.
Yarmouth

John J. MacDonald
Vice-President (Academic)
St. Francis Xavier Univeristy
Antigonish

+Donald W. Myers
Deputy Coordinator
CASE Nova Scotia
Federal Business Development
Bank
Halifax
(Resigned March 22)

+George C. Piercey
President and Chief Executive
Officer
Nova Scotia Savings and Loan
Company
Halifax

Sidney A. Reeves
President & General Manager
Maritime Builders Limited
Sydney

Struan Robertson
President and Chief
Executive Officer
Maritime Telegraph & Telephone
Co., Ltd.
Halifax

Percy J. Smith
Vice-President
Great Eastern Corporation Ltd.
Halifax

Charles E. Stanfield
Director
Maritime Telegraph & Telephone
Co., Ltd.
Truro

Catherine T. Wallace
Chairman
Maritime Provinces Higher
Education Commission
Fredericton
(Elected March 22)

OFFICERS

A. Gordon Archibald
Chairman of the Board

Struan Robertson
President and Chief Executive
Officer

D. Nelson Braid
Vice-President (Operations)

Ivan E. H. Duvar
Vice-President (Planning)

Edward J. Hicks
Vice-President (Finance)

Donald B. Quinn
Treasurer

David S. Inkpen
Comptroller

Stephen E. Jefferson
Secretary

Kathryn E. Watt
Assistant Secretary

OPERATIONS

G. Donald Robb
General Plant
Manager

Glen H. Geldert
Chief Engineer

Murray W. Wallace
General Commercial
Manager

Herbert C. Kingsbury
General Traffic Manager

M. John McGrath
General Marketing
Manager

Paul D. Murphy
General Business
Information Systems
Manager

Ernest C. Hicks
General Organization
Development Manager

Phillip G. Henderson
General Corporate
Development Manager

Donald R. Archibald
General Services
Manager

John R. Gale
General Information
Manager

Harry W. Dacey
General Personnel
Manager

+Member of Audit Committee

PRINTED IN NOVA SCOTIA